Saskatchewan

Rate Review Panel

Report to the Minister of Crown Investments Corporation on

SaskEnergy's Application for a Change in the Natural Gas Commodity Rate

May 1, 2003

Submitted June 27, 2003

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INTRODUCTION

The Saskatchewan Rate Review Panel (Panel) has been asked by the Minister of the Crown Investments Corporation to review the Crown corporation's request for rate changes for SaskEnergy, SaskPower and SGI - AutoFund. The Panel consists of:

Chair Boris Kishchuk
Vice Chair Jack Boan
Jo-Ann Carignan-Vallee
Joan Meyer
Linda Thauberger
John Vinek (Resigned May, 2003)

MANDATE

Pursuant to its mandate, the Panel shall:

- conduct a review and provide an opinion of the fairness and reasonableness of proposed Crown Corporation rate changes referred to the Panel by the Minister of Crown Investments Corporation, considering the interests of the customer, the Crown corporation and the public; and
- incorporate as part of its mandate specific terms of reference for particular Crown corporation rate change reviews that may be attached by further minister's order.

In conducting its reviews, the Panel is required to:

- receive a rate change submission from a Crown corporation;
- operate within the operational and specific terms of reference for a particular Crown corporation rate review;
- establish internal operating policies and procedures, including review assessment criteria and operating definitions, to facilitate efficient and effective decision-making by the Panel itself;
- establish procedures for conducting a review including, where appropriate, any expedited process(es) and ensure that these procedures are communicated and made available to the public;
- engage the services of a consultant(s) to assist the Panel in its review of the fair and reasonable nature of the proposed rate change;
- make available to the public, prior to holding public meetings, the Crown corporation rate change submission, with the exception of commercially sensitive information;
- hold public meetings except when deemed it is in the best interests of all parties concerned to waive these meetings;
- provide sufficient notification to the public of the date and location of all public meetings, including any rules for public participation and Crown corporation participation;
- provide members of the public with the opportunity to review and comment on the proposed rate changes to the extent reasonably allowed by the mandate of the Panel and by the schedule according to which the Panel is required to complete its work and provide its report to the Minister of Crown Investments Corporation;

- receive presentations of the consultant(s) and the Crown corporation, review any written submissions and receive comments from the public;
- implement a process to verify the factual information, analysis and results used to develop the recommendations prior to the final tabling of the report;
- prepare a report on the Crown corporation rate change submission for the Minister of Crown Investments Corporation after considering all material received from the Crown corporation, the consultant(s), the public and its own analysis, and:
    - where the Panel determines the rate changes as proposed are fair and reasonable, recommend the changes be implemented; or,
    - where the Panel determines the rate changes are not fair and reasonable as proposed, recommend the rate changes be adjusted and provide full and comprehensive reasons for this conclusion;
- provide its report respecting the proposed rate changes to the Minister of Crown Investments Corporation on or before the date set out in the specific terms of reference for a particular Crown corporation rate review; and
- make its report available to the public.

TERMS OF REFERENCE

On April 16, 2003, the Panel was requested to conduct a review of SaskEnergy's interim rate increase in its natural gas commodity rates, with an effective date approved by Cabinet. The Panel was requested to approve or provide recommendations for changing the rate by June 27, 2003. SaskEnergy was directed by Cabinet to file their application immediately.

The Panel was instructed to consider the fairness and reasonableness of SaskEnergy's proposed rate change, considering the interests of the customer, the Crown corporation and the public.

In conducting its review, the Panel considered the following factors:

(A) The reasonableness of the proposed changes to the gas consumption rates in the context of:

1. SaskEnergy's anticipated cost of gas for the effective term;
2. the Gas Purchase Contracts entered into by SaskEnergy for the supply of gas;
3. the natural gas commodity market conditions at the time of SaskEnergy's contractual commitments; and
4. the disposition of the balance of the Gas Cost Variance Account.

(B) In conducting its review, the Panel considered the following as given:

1. the current operating rate structure;
2. the approved capital allocation, annual rate of return target, rate base, and corporate policies;
3. the existing service level; and
4. the cost of service methodology and resulting study, which allocates SaskEnergy costs between the various rate classes.

The Panel was instructed to include in its report an explanation of how, in its opinion, implementation of the Panel's rate recommendations will allow SaskEnergy to achieve the performance inherent in the

parameters outlined in (B), where the Panel's recommendations are different from SaskEnergy's proposed rate change.

The Panel was instructed to include in its report the results of the review of SaskEnergy's rate request as conducted by an independent third party (consultant).

The Panel was instructed to present its report to the Minister for Crown Investments Corporation no later than June 27, 2003.

NATURAL GAS COMMODITY RATE

SaskEnergy and TransGas establish rates, charges, and terms and conditions of service for the services that each company provides to its customers. Each company must describe all rates and conditions of service in a schedule that is available to the public. The rates are subject to approval by the Saskatchewan Cabinet.
SaskEnergy currently charges customers for the cost of natural gas used at a rate of $0.2014 per cubic metre ($5.44 per GigaJoule (GJ)) and has requested a rate change to $0.2685 per cubic metre ($7.25 per GJ) effective May 1, 2003.

The SaskEnergy proposal to increase this rate is to:

- increase the commodity rate to reflect higher costs of the price of gas;
- under the SaskEnergy proposal, the new rate would apply to natural gas effective May 1, 2003. SaskEnergy did not request any changes to either the Basic Monthly or Delivery Charges.

Cabinet approved SaskEnergy's proposal on an interim basis effective May 1, 2003, pending receipt of a recommendation from the Panel.

THE REVIEW PROCESS

PUBLIC CONSULTATIONS

In reviewing the SaskEnergy proposal, the Panel received comments and suggestions from individuals and groups throughout Saskatchewan through a public consultation process including:

- a preliminary public hearing and four public meetings;
- use of a toll-free telephone message line;
- receipt of letters;
- receipt of messages by facsimile; and,
- receipt of electronic message correspondence.

The methods available for public discussion were advertised in daily and weekly newspapers. The Panel Chair was also involved in media interviews.

A copy of the SaskEnergy rate proposal was made available to the public at SaskEnergy offices, at the public meetings and on the Internet.

A preliminary public hearing was held May 1, 2003 in Saskatoon for the purpose of providing SaskEnergy the opportunity to present information about the proposed rate increase.

Public hearings were held June 9 in Prince Albert, June 10 in Saskatoon, June 11 in Swift Current and June 12 in Regina.

The hearings included:

- an introduction by the Chair with an explanation of the proceedings and the Panel's mandate for the review;
- an overview by SaskEnergy of its request;
- an opportunity for submissions by individuals or organizations that had indicated an interest in addressing the Panel; and,
- an opportunity for questions or comments from the floor.

PRESENTATIONS

As required by its mandate, the Panel received presentations and information from officials of SaskEnergy and from the Panel's consultant at several points throughout the review process to:

- develop an understanding of the proposed rate change;
- understand the analyses prepared for the Panel; and,
- develop recommendations.

CONSULTANT

In conducting its review, the Panel engaged the services of a consultant to examine and advise on the reasonableness and fairness of the SaskEnergy proposal.

The British Columbia Utilities Commission (BCUC) was contracted to provide consulting services to the Panel. Staff assigned to the review by the Commission has extensive experience in utilities regulation.

PEER REVIEW

In accordance with the Minister's Order, the Panel engaged the services of Mr. Gerry Forrest to conduct a confidential peer review of the Consultant's factual information, analysis and results. Mr. Forrest is Chairman of The Public Utilities Board, Consumer and Corporate Affairs in the Province of Manitoba.

ISSUES AND RECOMMENDATIONS

The Panel has identified a number of issues relating to SaskEnergy's Commodity Rate Application and has made a number of recommendations. The issues and recommendations listed below should be read in reference to SaskEnergy's Commodity Rate Application dated May 1, 2003 and the Consultant's Staff Review Report dated June 6, 2003. SaskEnergy's Commodity Rate Application may be obtained from SaskEnergy. The Consultant's report is attached as an appendix of this report and is posted on the Panel website.

The Panel's review was limited to the time frame identified in the Commodity Rate Application, both in the application itself and the information the Panel received from SaskEnergy officials during the Panel Hearings.

1.0 Gas Cost Variance Account Balance

SaskEnergy is requesting a 33% percent increase in the Gas Consumption Charge for May 2003, which would increase residential customer bills by 22%. This would result in a charge of $0.2685 per cubic meter or $7.25/GJ, leaving a credit balance in the GCVA as of March 2005 of $10.2 million.

The Panel is of the opinion there should be a zero balance in the GCVA at the end of the period covered in this rate increase application.

The Panel recommends that the Gas Cost Variance Account be reduced to a zero balance as of March 2005. This will result in decreasing the residential rate by an estimated $.09/GJ. (This estimate is based on information provided to the Panel by SaskEnergy that a change of $10 million in the GCVA balance will result in a rate change of $.09/GJ).

2.0 Monitoring and Acting Upon the Gas Cost Variance Account Balances

The Saskatchewan Rate Review Panel recommended in November 2000 "that if, the GCVA balance exceeded a $20 million (deficit or surplus) on March 31, 2001, the Minister should consider allowing SaskEnergy to return with a rate change proposal."

The balances in the GCVA for the period November 2001 to April 2003 were as follows:

November 2001 to October 2002 under-recovery	($33.8 million)
November 2002 to April 2003 under-recovery	($37.3 million)
Forecast balance owing by customers, April 30, 2003	($71.1 million)

Notwithstanding the $33.8 million debit balance at the end of October 2002, SaskEnergy did not propose a rate increase for 2002/03.

Large debit balances in the GCVA are, in the opinion of the Panel, undesirable for three main reasons: they interfere with customer budgeting of expenditures; they mitigate against energy conservation; and they place an unexpected burden on customers when the GCVA is collected.

Utilities in British Columbia and Manitoba are required to review their variance accounts with their regulatory agencies on a frequent and regular basis.

The Panel recommends that SaskEnergy be directed to review their GCVA with the Panel for possible rate change applications whenever the GCVA exceeds $20 million or on a quarterly basis, whichever comes first.

The Panel further recommends that SaskEnergy be directed to collaborate with the Panel to establish a streamlined process for reviewing gas commodity rate changes.

3.0 Loss on Sale of Over Supply Gas

SaskEnergy reported in their Gas Commodity Rate Application a loss of $12.8 million on the sale of over supply gas. The $12.8 million has been included in the GCVA to be paid by Utility customers.

The Panel questions the necessity of selling gas and then buying gas in a relatively short period of time.

In considering the fairness and reasonableness to the customers, the Panel is of the opinion that this amount should not be included in the GCVA. Exclusion of this would lower the rate increase request by an estimated $.11/ GJ.

4.0 Price Risk Management Plan

The Saskatchewan Rate Review Panel, in its December 2001 report to the Minister of Crown Investments Corporation recommended SaskEnergy file a Gas Supply and Price Risk Management Plan with the Panel for the 2002/03 period. This was not done.

The Panel notes in SaskEnergy's Commodity Rate Application the Utility shows a substantial loss from its hedging activities during the period November 1, 2001 to October 31, 2002 as noted in Schedule 2.2.1 Hedging Gains/(Losses). SaskEnergy officials indicated, at one of the Panel Hearings, this loss would be passed on to its customers.

The Panel's Consultant indicates that in British Columbia, gas utilities file annual gas contracting plans and price risk management plans for review by the British Columbia Utilities Commission. Gas utilities in Manitoba have similar obligations.

The Consultants "are of the view that greater regulatory oversight of the Utility's gas contracting and price risk management strategy prior to implementation would be appropriate. It would supplement rather than replace oversight of gas procurement activities by the Utility's management and Board of

Directors. Such reviews of the Utility's price risk management plans should help ensure that its objectives and strategies align with the interests of customers, the Utility and public."

The Panel concurs with the Consultant's recommendation that SaskEnergy develop a price risk management strategy and implementation plan for the next two years in a timely fashion and present it to the Panel for review.

5.0 Interest Charges on the Gas Cost Variance Account Balance

SaskEnergy applies interest charges on the GCVA balance and includes the interest charges in the GCVA to be paid for by its customers.

In response to a Panel inquiry, the Utility estimates that the interest costs attached to the GCVA, if the GCVA was capped at $20 million, with a recovery time 23 months, is $3.29 million.

In considering the fairness and reasonableness to the customers, the Panel is of the opinion that the interest charge of $3.29 million should not be included in the GCVA. This exclusion would result in a decrease in the proposed rate by an estimated $.03/GJ. (This amount would have to be recalculated if the GCVA recovery period is different)

6.0 Migration of SaskEnergy Customers Due to Collection of the Gas Cost Variance Account

SaskEnergy, in their submission, identified the possible migration of some of its customers to other gas suppliers resulting from the collection of the Gas Cost Variance Account (GCVA).

The Panel's Consultant states that if a significant migration away from Utility sales occurs, the remaining Utility sales customers may be unfairly burdened with a debit balance caused in part by departing customers.

SaskEnergy, during the Hearings, indicated they are able to track customers leaving after May 1, 2003 along with the amount of GCVA owing.

To prevent customer migration from impairing the payback of the GCVA debit balance, the Panel concurs with the Consultant's recommendation that SaskEnergy implement tariff provisions to ensure that customers leaving the Utility do not escape payback of their share of the GCVA balance, resulting in an unfair burden on the remaining customers.

7.0 Gas Cost Variance Account Information on SaskEnergy Gas Bills

Many consumers are not familiar with the Gas Cost Variance Account and its purpose. Given the projected volatility of gas price in the future, the Panel believes that efforts should be made to create a greater public awareness of the GCVA.

The Panel recommends that GCVA charges on customer gas bills be identified separately from the other charges shown on the bill.

8.0 Gas Cost Variance Account Recovery Period

SaskEnergy proposes in their Gas Commodity Rate Application to recover the GCVA balance over a 23 month period.

The Panel's Consultant investigated two other options – a 12 month recovery period and a 36 month recovery period. In addition, the Panel requested the Utility to calculate the decrease in GCVA recovery charges and the Basic Gas Cost Consumption charge if the recovery period was 30 months.

SaskEnergy's response to the Panel's inquiry was the Basic Gas Consumption Charge would decrease by $.06/GJ and the GCVA Recovery Charge would decrease by $.07/GJ.

In order to mitigate the rate shock to customers, the Panel recommends that the GCVA recovery period be established at 30 months. This will result in a decrease in the proposed rate by an estimated $.13/GJ. The 30 month period will coincide with the normal gas year.

9.0 Impact on Consumers

In accordance with its mandate, the Panel provided several venues for the public to express its views about the proposed rate increase. Venues included e-mail, toll-free telephone, fax and mail, as well as one preliminary and four final public hearings. While the public hearings were not well attended, the Panel received a substantial number of submissions via e-mail, letters and telephone calls. The prevailing view was that the proposed increase would adversely affect the standard of living for many - to the point where it would create a hardship. Of particular concern were those on fixed incomes, senior citizens, single parent families and students.

The Panel was told that in Saskatchewan's climate, heating is a requirement, not a choice. For many, any change in fuel prices has a direct effect on incomes available for other necessities as well as on any disposable income.

Some of the concerns reflected the "rate shock" element of the proposed increase, with many respondents querying why the increases were not phased-in earlier.

While most of the submissions the Panel received were from individuals, a number of small business owners and community organizations, including church congregations, indicated that the proposed increase will cause considerable hardship.

The Panel is aware that any recommendation with respect to the impact on the consumer is beyond its mandate. However, due to the response from the public and its genuine concerns, the Panel felt obligated to address this issue within the report.

10.0 Interim Rate Increases Prior to Panel Review

The decision to make the rate increase effective May 1, rather than wait for the Panel's analysis and recommendations, impacted unfavorably on the public's perception of the Panel's independence. The Panel was made aware of this through e-mail and phone messages received. An example follows:

> "I realize your invitation to the public to solicit comments on the proposed increase is actually just polite lip service, and that this email will most likely just generate a few snide remarks and chuckles around the boardroom table before being filed in bin 13 with the others. However, it does give me some small comfort to type this up and know that after the said 'independent' Review Panel have rubber stamped the increase, your plum patronage appointments to the panel for past services rendered will hopefully expire with the change of Government ultimately coming later this fall...."

The public's perception of the Panel's independence has never been all that robust. Imposing an interim rate increase has not helped.

While interim rate changes are not uncommon, they are usually awarded by a regulatory body after an initial review.

The Panel recommends that with the exception of dire emergencies, rate increases not be implemented until after the deliberations of the Panel have been completed.

11.0 Gas Consumption Charge

The Panel accepts that gas commodity prices have risen substantially since the last rate adjustment considered by the Panel.

In the case of the current application, the Panel recommends the following gas commodity rate.

Proposed by SaskEnergy	$7.25/GJ
Less adjustment for zero balance (Recommendation 1.0)	.09/GJ (est.)
Less adjustment for sale of over supply gas (Recommendation 3.0)	.11/GJ (est.)
Less adjustment for interest charges (Recommendation 5.0)	.03/GJ (est.)
Less adjustment for change in the GCVA recovery period -Recommendation (8.0)	.13/GJ (est.)
Recommended rate	$6.89/GJ (est).

The recommended adjustments are estimates only and will have to be verified by the Utility

In considering the customer, the Crown Corporation and the public, the Panel is of the opinion that the recommended rate is fair and reasonable to all parties. The Panel feels that the rate adjustment will not affect the financial stability of the Utility nor materially affect the Utility's obligation identified in Item B of the Terms of Reference.

12.0 Delivery Charge

The Panel's Consultant noted that in November 2002, Cabinet approved a downward adjustment of TransGas' transportation charges to SaskEnergy's residential customers in the amount of some $10.0 million. The Consultant states " as the proposed 33% increase in gas consumption charges results in a 22% increase in residential customer bills, a 6% deduction in Delivery Charges is estimated to result in a 2% reduction in annual bills. In summary, if the reduction in TransGas charges to SaskEnergy was used to offset the rate increase due to commodity cost, the total residential bill would be 20% rather than 22%."

The Panel is aware that adjustments to delivery charges are outside the scope of the present review. However, it recommends the Utility apply for a rate change in delivery charges to reflect the decreased cost to the Utility and subsequent saving to the consumer.

Appendix A: Minister's Order
Appendix B: British Columbia Utilities Commission Staff Review Report to the Saskatchewan Rate Review Panel, dated June 2003

MINISTER'S ORDER

Saskatchewan Rate Review Panel
SaskEnergy Natural Gas Commodity Rate Change

WHEREAS by an Order dated July 24, 2002, issued pursuant to Section 16 of *The Government Organization Act*, the Minister of Crown Investments Corporation appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel;

AND WHEREAS that Order provides for specific terms of reference for particular Crown Corporation rate change reviews to be attached by further minister's order;

AND WHEREAS it is desirable to establish terms of reference for a SaskEnergy rate change review and to attach the Terms of Reference to the previously mentioned Minster's Order;

NOW THEREFORE, I hereby amend the said Order by attaching Appendix A affixed hereto as "Schedule "A": SaskEnergy Natural Gas Commodity Rate Adjustment Terms of Reference" to the said Minister's Order.

Dated at Regina, Saskatchewan this 16th day of April, 2003.

"Maynard Sonntag"

Minister of Crown Investments Corporation

Appendix A

Schedule A:
SaskEnergy Natural Gas Commodity Rate Adjustment Terms of Reference

Terms of Reference

The Saskatchewan Rate Review Panel is requested to conduct a review of SaskEnergy's interim rate increase in its natural gas commodity rates, with an effective date approved by Cabinet. The Panel is requested to approve or provide recommendations for changing the rate by June 27, 2003. SaskEnergy has been directed by Cabinet to file their application immediately.

The Panel shall provide an opinion of the fairness and reasonableness of SaskEnergy's proposed rate changes, considering the interests of the customer, the Crown Corporation and the public.

In conducting its review, the Panel will consider the following factors:

(A) The reasonableness of the proposed changes to the gas consumption rates in the context of:

1. SaskEnergy's anticipated cost of gas for the effective term;
2. the Gas Purchase Contracts entered into by SaskEnergy for the supply of gas;
3. the natural gas commodity market conditions at the time of SaskEnergy's contractual commitments; and
4. the disposition of the balance of the Gas Cost Variance Account.

(B) In conducting its review, the Panel shall consider the following as given:

1. the current operating rate structure;
2. the approved capital allocation, annual rate of return target, rate base, and corporate policies;
3. the existing service level; and
4. the cost of service methodology and resulting study, which allocates SaskEnergy costs between the various rate classes.

The Panel will not publicly release or require SaskEnergy to publicly release commercially sensitive material including, but not limited to, its gas price hedging strategy and any details of its hedging or the gas purchase contracts.

However, the Panel may release the net effect of SaskEnergy's gas price hedging and gas purchase contracts.

The Panel must include in its report an explanation of how, in its opinion, implementation of the Panel's rate recommendations will allow SaskEnergy to achieve the performance inherent in the parameters outlined in (B), where the Panel's recommendations are different from SaskEnergy's proposed rate changes.

The Panel will release, as part of its final report, the results of the review of SaskEnergy's rate request as conducted by an independent third party.

Conduct of the Review

The Panel will present its report to the Minister for Crown Investments Corporation no later than June 27, 2003. SaskEnergy has been directed by Cabinet to file their application with the Panel immediately.

SASKENERGY INCORPORATED

NATURAL GAS DISTRIBUTION UTILITY

COMMODITY RATE APPLICATION
for
May 1, 2003 – March 31, 2005

STAFF REVIEW REPORT

June 6, 2003

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APPENDIX 1 – Cost of Gas Sold

ATTACHMENT 1 - Minister's Orders with Attached Appendix A
ATTACHMENT 2 - Schedule A, Services Provided by BCUC Staff
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SASKENERGY INCORPORATED

Commodity Rate Application

May 1, 2003 – March 31, 2005

BCUC Staff Review Report

1.0 INTRODUCTION

1.1 SaskEnergy Application

SaskEnergy Incorporated ("SaskEnergy", the "Utility") applied on May 1, 2003 for an increase in its Gas Consumption Charge for the 23-month period from May 1, 2003 through March 31, 2005 (the "Application"). SaskEnergy recommended a 33 percent increase in its Gas Consumption Charge from $0.2014 per cubic metre ($5.44/GJ[1] at 37.04 GJ per thousand cubic metres) to $0.2685 per cubic metre ($7.25/GJ) effective May 1, 2003. The corresponding increase in the annual bill of a typical residential customer would be approximately $228 or 22 percent. Other sales customer classes would have average annual bill increases of 22 to 26 percent.

The new rate is based on the forecast cost to SaskEnergy of the natural gas that it will resell to customers, plus the recovery from customers of a forecast debit balance of $71.1 million in the Gas Cost Variance Account ("GCVA"). The debit balance resulted because SaskEnergy's cost of buying gas for customers was more than it received in its sales rates. The recovery of the GCVA balance over 23 months is responsible for $0.0242 per cubic metre ($0.65/GJ) of the Gas Consumption Charge increase. This is 35 percent of the requested rate increase. The Application also forecasts that, with the requested rate, a $10.2 million credit balance owing to customers will build up in the GCVA by the end of March 2005.

SaskEnergy implemented the proposed Gas Consumption Charge on an interim basis on May 1, 2003, prior to the review of the Application. After the Saskatchewan Rate Review Panel ("the Panel") files its report on the Application, the Provincial Government can choose to confirm the new rate or amend it.

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1 A gigajoule ("GJ") is a unit of energy. A terajoule ("TJ") is one thousand gigajoules. A Petajoule ("PJ") is one million gigajoules. One GJ is about the amount of energy contained in 27 cubic metres or 950 cubic feet of natural gas, or 29 litres of gasoline, or 278 kilowatt hours of electricity, or 0.16 barrels of oil. The amount of natural gas used by

Any difference between the interim rate and the permanent rate will be refunded to or charged to customers.

The previous Gas Consumption Charge of $0.2014 per cubic metre went into effect November 1, 2001. It replaced a rate of $0.2338 per cubic metre, and reduced a typical residential annual bill by 10 percent.

This is a review of the fairness and reasonableness of SaskEnergy's proposed rate changes, considering the interest of the customers, the Crown Corporation and the public. The review is to assess if SaskEnergy's contracting plans ensure that customers receive adequate supplies of natural gas at a price that is reasonable considering the opportunities available in the competitive market, and to confirm the rate that results from SaskEnergy's gas purchases.

1.2 North American Natural Gas Prices

The rapid rise in natural gas commodity prices over 1999, 2000 and early 2001 was a North American phenomenon resulting from strong demand growth in the United States and limited supply. The factors that caused the increase in gas prices reversed in mid 2001, when the rapid refilling of underground gas storage in the United States and Canada resulted in a sharp price decline. The higher injection rate was made possible by increased supply resulting from more well drilling, mild but not overly hot weather, and demand reductions resulting from higher gas prices and a slowing United States economy.

Colder weather, signs of recovery in the North American economy, concerns about reduced well drilling and higher crude oil prices caused gas prices to increase in early 2002. Prices were relatively stable for most of the remainder of 2002, and storage reservoirs were close to full in early November 2002.

Gas prices increased sharply starting in December 2002, due to colder than normal weather in central and eastern North America, high oil prices and ongoing concern that current drilling levels had not increased supply. Extremely cold weather in February and March 2003, coupled with dwindling storage inventories, caused gas prices to increase sharply, with the Alberta Energy Company ("AECO") trading hub price reaching $9.61/GJ for March 2003.

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individual residential customers varies widely; a typical residential customer consumes about 130 GJ annually for heating and hot water.

Gas storage inventories were at record lows at the end of this past winter, and total North American supply is estimated to have declined slightly since 2002. With warmer weather, gas prices came down somewhat for April, but the need to refill storage is expected to support high gas prices in the $7.00/GJ range through the rest of 2003. Current forward prices indicate some price softening for subsequent years, and are forecast to average about $6.20/GJ for 2004.

The quickness and magnitude of the increase in gas prices in late 2000, the sharp drop in 2001 and the increase in early 2003, were unexpected. High price volatility in response to relatively small changes in the supply/demand balance is expected to continue to be a characteristic of gas markets. Prices for 2003 through 2005 will be strongly influenced by weather, the level of economic activity in the United States and Canada, the results from current drilling programs, and world oil prices.

1.3 SaskEnergy and Its Gas Distribution Activities

SaskEnergy is a provincial Crown Corporation operating under the SaskEnergy Act. SaskEnergy has a number of wholly-owned subsidiaries, each operating on a stand-alone basis. One subsidiary is TransGas Limited ("TransGas") which owns and operates natural gas transmission, gathering, compression, treatment and storage facilities in Saskatchewan. TransGas has an exclusive right to transport gas within the province, up to the town border stations where pressure reduction first occurs.

SaskEnergy, as the distribution utility, has the exclusive right to distribute gas within Saskatchewan. It delivers gas to approximately 317,000 residential, farm, commercial and industrial customers. Although the facilities of SaskEnergy start at the town border stations, its rates start with gas at the TransGas Energy Pool ("TEP"). TEP is a notional location part way through the TransGas transmission system, which acts as a market hub or interchange point. As of May 1, 2003, storage is considered to be located at TEP. SaskEnergy contracts with TransGas for gas storage and for transportation capacity from TEP to the SaskEnergy system for its utility sales customers. The TransGas costs for storage and transportation from TEP are recovered from customers in SaskEnergy's Delivery Charges, along with SaskEnergy's internal costs of providing distribution delivery service.

With the development of competitive gas commodity markets since 1985, most industrial and some commercial customers now buy the natural gas commodity directly from a producer or other supplier

and use only distribution services from SaskEnergy. Sales of the gas commodity by SaskEnergy now represent only about one-half of total SaskEnergy deliveries. SaskEnergy purchases natural gas for utility sales customers, and recovers its cost of buying the gas commodity and transporting it to TEP in the Gas Consumption Charge. In 1998, SaskEnergy redesigned its rates and bills to show the Delivery Charge and the Gas Consumption Charge separately.

1.4 Approval of Rates

SaskEnergy and TransGas establish rates, charges, and terms and conditions of service for the services that each company provides to its customers. Each company must describe all rates and conditions of service in a schedule that is available to the public. The rates are subject to approval by the Saskatchewan Cabinet.

A Minister's Order dated July 24, 2002, pursuant to The Government Organization Act, continued the Panel as a ministerial advisory committee to review and provide an opinion on the fairness and reasonableness of proposed Crown Corporation rate changes. The Panel is to consider the interests of the customer, the Crown Corporation and the public in its opinions.

A subsequent Minister's Order, dated April 16, 2003, requested that the Panel review SaskEnergy's interim increase in its natural gas commodity rates, and set out Terms of Reference for the review. SaskEnergy was directed to file its application for the rate increase immediately. The Terms of Reference stated that several matters, including the current operating rate structure, approved capital allocation, annual rate of return target, rate base, corporate policies, existing service level, and the methodology to allocate cost of service among rate classes, were to be considered as given. Where the Panel's recommendations differ from SaskEnergy's proposed rate change, the Panel also must explain how, in its opinion, implementation of the rate recommendations will allow SaskEnergy to achieve the rate of return and other parameters that are to be considered as given. The Panel is to present its report to the Minister for Crown Investments Corporation of Saskatchewan by June 27, 2003. The two Minister's Orders are Attachment 1 to this Report.

1.5 Purpose of BCUC Staff Review Report

The staff of the British Columbia Utilities Commission ("BCUC") were engaged by the Panel to review the fairness and reasonableness of SaskEnergy's proposed rate increase, and to provide

recommendations regarding SaskEnergy's rate proposal and the disposition of the GCVA balance. BCUC staff act as independent advisors to the Panel to assist it in providing recommendations to government with respect to SaskEnergy's request for a gas commodity rate increase, consistent with the Terms of Reference for the Panel's review of the Application. This Report sets out the results of the BCUC staff review.

Attachment 2 of the Report outlines the services to be provided by BCUC staff. Attachment 3 describes the normal role of BCUC staff, outlines the delivery charge and gas commodity charge approval process in British Columbia and provides biographies for staff members Brian Williston and Bill Grant who prepared the Report.

2.0 LOAD FORECAST

2.1 Annual Load Forecast

SaskEnergy forecasts the following sales and purchase volumes for the 2003/04 gas contract year and for the May 2003 through March 2005 period. The 2003/04 forecast is shown to facilitate comparisons to earlier periods, and these volumes are included in the information for May 2003 through March 2005. (Application, Chapter 4).

Actual and Forecast Annual Sales and Purchases, TJ

	November 2001 through October 2002	November 2003 through October 2004	May 2003 through March 2005
SaskEnergy Sales	60,527	57,261	110,660
Swan Valley	30	90	183
Other Sales	12,958	0	0
Load Adjustment	(82)		(1,802)
Total Sales	73,433	57,351	109,041
SaskEnergy Usage	466	371	683
TransGas Fuel and Loss	442	244	434
Total Purchases	74,341	57,966	110,158

To derive the forecast, SaskEnergy multiplied the expected annual use per customer for each customer class under normal weather conditions times the expected average number of customers in the rate class. The assumed use per customer is based on weather adjusted data for the past three to five years. SaskEnergy expects that the trend of declining use per residential customer will continue over the forecast period. SaskEnergy forecasts normalized residential use per customer of 123.1 GJ per year for 2003/04. This forecast use per customer is a 2.0 percent per year decline from the forecast for 2001/02, and is approximately equal to the normalized actual for the 2001/02 year.

SaskEnergy sells a small amount of gas to its subsidiary Swan Valley Gas Corporation ("Swan Valley") for customers in Manitoba. The gas is priced at SaskEnergy's Gas Consumption Charge. SaskEnergy also recovers an allocated portion of its storage payments and other costs from Swan Valley.

Due to warmer than normal weather in early 2001, larger than expected volumes remained in storage at the end of the heating season. This caused SaskEnergy to have a surplus of gas, which it sold into the market over the summer of 2001.

A load adjustment of 1,802 TJ is predicted for 2003, to reconcile the estimated sales quantities billed by SaskEnergy to customers and the estimated deliveries from the TransGas transmission system. The delivery estimates are reconciled in the summer, when the total deliveries and corresponding delivery differences are at a minimum, and SaskEnergy expects the actual adjustment will be considerably smaller.

The $0.65/GJ charge to recover the GCVA debit balance will tend to make sales gas from the Utility more expensive and less competitive with purchases from gas marketers. SaskEnergy expressed concern that this could encourage customers, particularly those with large gas consumption, to buy gas directly from marketers so that remaining sales customers are left with responsibility for paying back the GCVA debit balance. Some other jurisdictions where this has become a concern have considered exit fees or a GCVA rate rider that applied to customers converting from sales to transportation. In the Application, SaskEnergy did not make an adjustment to forecast sales for the potential migration from Utility sales, or propose an exit fee or separate GCVA rate rider so that customers who migrate from sales would pay their fair share of the outstanding GCVA balance. If a significant migration away from utility sales occurs, the remaining utility sales customers may be unfairly burdened with a debit balance caused in part by the departing customers.

2.2 Design Peak Day Forecast

SaskEnergy derives its forecast peak day load as the product of the forecast use per customer on the peak day and the estimated number of customers on that day. The forecast use per customer on the peak day is based on a regression analysis of the relationship between peak day use per customer and weather (temperature and wind). The regression uses historical data from the past 10 years to estimate the use per customer for weather conditions with a 1-in-20 (5 percent) probability of occurring in the test year. This is consistent with the design criteria used by gas utilities elsewhere.

SaskEnergy forecasts a design peak day load of 603.0 TJ/d for 2002/03, which is the same forecast that has been used since 2000/01. Suppliers who sell the gas commodity directly to customers are expected to provide 15.0 TJ/d of the total peak supply to meet the 603.0 TJ/d design peak day load.

2.3 BCUC Staff Assessment

The Gas Consumption Charge is intended to flow-through SaskEnergy's cost of purchasing gas, with any differences between forecast and actual accumulating in the GCVA. Consequently, the accuracy of the annual load forecast is not as critical as it would be if the Utility's Delivery Charges were under review. Based on a limited review and comparison to earlier SaskEnergy forecasts, BCUC staff consider that the forecast for May 2003 through March 2005 is reasonable.

SaskEnergy appears to thoroughly analyze and monitor its peak day requirements. Consequently, the design peak day forecast appears reasonable, and should also be accepted. Significant migration from Utility sales would affect the amount of gas SaskEnergy needs to purchase, but SaskEnergy has flexibility to adjust the amount of supply that it contracts for future periods. To prevent customer migration from impairing the payback of the GCVA debit balance, BCUC staff recommend that SaskEnergy implement tariff provisions to ensure that customers leaving Utility sales do not escape payback of the GCVA balance.

3.0 SUPPLY PORTFOLIO

Saskatchewan and SaskEnergy are in a favourable position to arrange a secure, flexible and relatively low cost supply of natural gas for consumers. Production within Saskatchewan exceeds consumption and the Trans Canada Pipeline crosses the province carrying mainly Alberta gas production to market. The AECO gas trading point in Alberta is very liquid, and provides a reliable market reference price along with opportunities for financial price risk management activities. Moreover, AECO prices are expressed in Canadian dollars, thereby avoiding currency fluctuation risks.

Perhaps most importantly, SaskEnergy has access to underground gas storage in old gas fields and caverns that are conveniently located close to its major markets. The Utility relies on storage gas to meet about two-thirds of its design peak day demand. Saskatchewan consumers benefit greatly from the available storage in proximity to load requirements.

3.1 Contracted Gas Supply

SaskEnergy stated that it designs its gas supply portfolio to give the least cost mix, while providing the required security and flexibility of supply (Application, Chapter 5). The Utility relies mainly on storage gas and gas purchase contracts to supply daily sales demand. SaskEnergy anticipates buying a small amount of spot gas to provide flexibility and to handle very cold weather. With ready access to gas markets with good liquidity, such spot gas should be available for purchase when needed, although the price may be high.

In addition to meeting annual and peak day demands, the Utility carefully monitors weather and storage levels during the November through March winter period, when most gas is sold. To the extent the weather is colder than average and sales are higher, SaskEnergy will buy additional winter spot supply. On the other hand, if sales are lower, the Utility may sell the surplus gas in the marketplace or keep it in storage.

SaskEnergy buys most of its gas supply under year-round contracts that are annual or long term (term greater than one year). SaskEnergy expects to buy almost all of its supply for the period in Saskatchewan, with pricing that is based on the intra-Alberta AECO Monthly Index or the AECO Daily Index. SaskEnergy takes receipt of most of the gas at Saskatchewan Field locations, or at the TEP interchange point in Saskatchewan. The contract prices include basis differentials that relate the prices at these location to AECO prices.

SaskEnergy has approximately 43 percent of supply for the 2003/04 gas year under contract, and approximately one-half of these contracts permit price renegotiation. The pricing terms of the current contracts are generally variable prices based on AECO indices, and the Utility expects that similar pricing terms are likely to apply for the period under review.

3.2 Price Risk Management

Prior to 2000/01, SaskEnergy established its Gas Consumption Charge as a gas sales rate that was fixed for one year. Unlike several other gas utilities in Canada, until November 1999 it did not have a gas cost variance account in which to record differences between forecast and actual gas costs. To reduce

the price risk from its AECO index-based purchases, the Utility used financial instruments to convert most of its index-based purchases to fixed pricing. SaskEnergy also purchased call options, which limited its upward cost exposure. The fixed price for gas was used as the basis for the gas commodity rate for the year. This approach allowed SaskEnergy to shield customers from volatile gas prices, and also generally delayed the impact on rates of rising gas prices.

Natural gas prices were trading at record high levels in Western Canada and across North America as the 2000/01 gas contract year approached. SaskEnergy's price hedging plus gas that was in storage secured about one-half of the supply for 2000/01 at prices that were well below market prices. However, SaskEnergy was concerned about the very high price levels and extreme price volatility, and consequently maintained a significant portion of indexed prices in its portfolio. Cold weather in November and December 2000 led to very high prices for the unhedged portion of purchases. This caused a $75.9 million debit balance to accumulate in the GCVA to the end of May 2001, which the Saskatchewan Cabinet directed SaskEnergy to absorb.

For 2001/02, SaskEnergy extensively hedged its purchases, with the result that the larger part of purchases in 2001/02 were at fixed prices. Due to warmer than usual weather from November 2001 to February 2002, storage was drawn down less than expected and so less gas was needed to replenish storage. The excess gas was sold during summer 2002 at market prices that were below the purchase cost of the gas.

During the summer of 2002, spot prices were much lower than forward prices for the 2002/03 gas year commencing November 2002. Gas storage inventories were at record high levels and a strengthening of the North American economic recovery had not materialized. In the circumstances, SaskEnergy decided to not hedge prices for 2002/03. As gas prices moved upward in November, SaskEnergy hedged a small amount of gas for December 2002. During the period of very volatile prices in January through March 2003, SaskEnergy participated in a small amount of option activity. Over the period November 2002 through April 2003, SaskEnergy's hedging actions reduced gas cost by $1.543 million.

SaskEnergy has a small amount of hedging in place for May through October 2003. These hedges are expected to increase gas costs by $1.298 million. SaskEnergy confirmed at the May 1, 2003 hearing that it intends to move forward with a gas price risk management plan for the two-year period under review.

3.3 Price Risk Management by Other Gas Utilities

In British Columbia, gas utilities file annual gas contracting plans and price risk management plans for review by the BCUC. This provides regulatory oversight of the Utility's strategy prior to its implementation. A similar program for SaskEnergy was recommended in earlier reports by BCUC staff (See Section 3.3 of the December 10, 2001 report). The price risk management activities of gas utilities in British Columbia have reduced the variability of gas rates. When gas prices are going up (as in late 2000 and early 2003), hedging reduces the cost of gas and moderates (or at least delays) the resulting rate increase. Conversely, when gas prices fall (as in 2001), hedging reduces or delays the reduction in gas rates. Although price risk management results are considered confidential, BC Gas Utility Ltd. (now Terasen Gas Inc.) reported that its price hedging and use of storage saved customers more than $100 million during November 2002 through March 2003. A well thought out price risk management plan will reduce volatility in customer rates and should lead to lower overall rates over an extended period.

The Panel has been provided with a copy of Order No. 73/03 of the Manitoba Public Utilities Board dated May 1, 2003 approving primary gas sales rates effective May 1, 2003. This Order states that Centra Gas Manitoba Inc. implemented price collars that are expected to reduce gas costs by $15.0 million or $0.338/GJ over the 12 months following May 1, 2003.

3.4 BCUC Staff Assessment

SaskEnergy has developed a portfolio of physical gas supply contracts for 2002/03 that is generally appropriate to meet the needs of its customers, considering its location and the opportunities available. Almost all of these contracts have variable gas prices that are based on the AECO indices. A similar portfolio should be suitable for the rest of the period to March 2005. Although the analysis that established the detailed makeup of the portfolio has not been reviewed, it is felt that such further review is not warranted. The arrangements that are in place appear reasonable and the Utility is in the best position to optimize its portfolio. Regulatory oversight should avoid intruding on a utility's management function beyond what is necessary to assure the public that efficient operations exist.

The negotiated prices for the great majority of gas purchase contracts rely on the AECO indices, which is a reliable indicator of market prices. The basis differentials relative to this index were established by negotiation, and generally reflect differences in transportation costs between the locations. SaskEnergy provided detailed contract information showing that the basis differentials in the Application are reasonable averages for the contracts that are in place for the May to October 2003 period. It is reasonable to expect that generally similar prices can be negotiated for the remainder of the period under review.

The Terms of Reference direct the Panel to consider the reasonableness of the proposed rate change in the context of SaskEnergy's anticipated cost of gas and gas purchase contracts, gas commodity market conditions at the time of SaskEnergy's contractual commitments and the disposition of the GCVA balance. Therefore, the focus of the review is the recovery of gas costs that are expected to result from past SaskEnergy gas contracting and hedging actions. The gas contracting strategy and price risk management objectives and strategy that will guide future utility contracting and hedging, are generally outside the scope of the review. Nevertheless, as discussed in previous reports, BCUC staff are of the view that greater regulatory oversight of the Utility's gas contracting and price risk management strategy prior to implementation would be appropriate. It would supplement rather than replace oversight of gas procurement activities by the Utility's management and Board of Directors. Such reviews of the Utility's price risk management plans should help ensure that its objectives and strategies align with the interests of customers, the Utility and the public.

Almost all purchases for the May 2003 to March 2005 period will be at indexed prices, and SaskEnergy has minimal price risk management instruments in place. As the Application deals with a two year period and most of the recovery of the GCVA balance occurs in the second year, SaskEnergy's risk management actions should include fixing a reasonable portion of purchases for the second year at the current lower forward prices. BCUC staff recommend that SaskEnergy develop a price risk management strategy and implementation plan for the next two years in a timely fashion, and present it to the Panel for review.

4.0 FORECAST COST OF GAS

The sales load forecast under average weather conditions and the portfolio of gas purchase contracts and financial hedges, were used to estimate the forecast Cost of Gas Sold of $710,319,000 (Application, Chapter 1). The Application forecast was based on April 11, 2003 forward gas prices. Appendix 1 compares this forecast and the forecast for the 2003/04 gas year to the approved numbers for 2000/01 and actual numbers for 2001/02.

SaskEnergy requested that detailed proprietary information about its supply arrangements be kept confidential, as disclosure would disadvantage the Utility and its customers. This request for confidentiality of commercially sensitive information is consistent with disclosure requirements in other provinces where commodity competition exists.

4.1 Cost of Gas Purchases

Contracts with AECO Pricing and Price Differentials to AECO

Almost all of SaskEnergy's gas purchases have pricing that is referenced to the AECO monthly and daily indices. The Application uses a forecast of AECO prices and the average forecast basis differential for the receipt point, to calculate the forecast price and gas cost at each receipt point. AECO pricing causes uncertainty in gas price forecasts, unless the prices are fixed by hedging. Differences between forecast and actual basis differentials should be small.

Fixed Price Contracts and Fixed Hedges

SaskEnergy buys a small amount of gas under fixed price contracts. SaskEnergy has also used financial instruments to convert a small portion of its supply with AECO pricing to fixed prices using AECO price swaps. The prices for these purchases are known.

Options

For a very small portion of its gas purchases with AECO pricing for May through October 2003, SaskEnergy purchased call options to limit the cost exposure if prices increase. When forecast prices are above the "strike" or reference price for a call option, the option acts to fix the cost of gas to SaskEnergy at the strike price. Based on its price forecast, SaskEnergy estimated the

hedging benefit that those options provide. The option premiums that SaskEnergy paid to buy call options are also included in the Cost of Purchase Gas.

There is risk in any price forecast, particularly in this period of extremely volatile market prices and when there is very little fixed price gas in the portfolio. Differences between forecast and actual costs will be recorded in the GCVA. BCUC staff consider that the forecast in the Application is a reasonable estimate of the cost of gas purchases for the period, assuming April 11, 2003 forward AECO prices.

4.2 Transportation Costs

SaskEnergy contracts TransGas transportation service for moving gas from Saskatchewan field receipt points or interconnects at the Saskatchewan/Alberta border, to the TEP interchange point and storage. The Utility has increased the amount of service from Saskatchewan field receipt points from about 70,000 GJ/d in 2002 to 83,000 GJ/d, as it expects to buy somewhat less gas at TEP. SaskEnergy expects to contract 33,000 GJ/d of firm TransGas service from the Alberta border to TEP. This will permit it to move spot purchases, ensuring access to sufficient gas supply for load requirements in a colder than normal winter. The Utility also expects to use a small amount of interruptible TransGas service.

Effective May 1, 2003, TransGas made significant structural changes to the way it provides gas transportation. Storage is now considered to be at TEP, and transportation service and tolls between storage and TEP have been eliminated. TransGas also implemented a number of rate increases to keep it revenue neutral while making the structural changes. The structural and rate changes were developed through TransGas' Customer Dialogue Process, and were approved by the Saskatchewan Cabinet on November 19, 2002.

The new TransGas service structure and rates will generally reduce combined storage and transportation costs for low load factor customers, and increase costs for high load factor customers. SaskEnergy Distribution Utility costs upstream of TEP will increase by $527,000 per year, which will be recovered in the Gas Consumption Charge. SaskEnergy Distribution Utility costs for storage at TEP and transportation downstream of TEP, which are recovered in the Delivery Charge, will decrease by $9,982,000 per year. However, the sizeable cost decrease will not flow through to customers until SaskEnergy Delivery Charges are revisited.

Appendix 2 of the November 20, 2000 BCUC Staff Report indicated an adjusted Delivery Charge revenue requirement of $163.7 million for 2000/01. BCUC staff have not reviewed changes to Delivery Charge costs and revenue since that time. However, the $10.0 million reduction in TransGas charges would represent a reduction of approximately 6 percent in 2000/01 Delivery Charge revenue requirements and a similar reduction in Delivery Charges. As the proposed 33 percent increase in Gas Consumption Charge results in a 22 percent increase in residential customer bills, a 6 percent reduction in Delivery Charges is estimated to result in a 2 percent reduction in annual bills. In summary, if the reduction in TransGas charges to SaskEnergy was used to offset the rate increase due to commodity costs, the total residential bill increase would be 20 percent rather than 22 percent.

SaskEnergy appears to be managing the amount of transportation that it contracts in a reasonable fashion. SaskEnergy pays for the service at TransGas' current published tariff rates. An assessment of the level of current TransGas rates or of SaskEnergy Delivery Charges is outside the scope of this Report and the Panel's Terms of Reference.

4.3 Change in Storage Inventory Value

Gas injected into storage is valued at the average cost of acquiring the gas that month at the TEP interchange point. This cost includes gas purchase costs including hedging effects and the cost of transportation to TEP. Gas withdrawn from storage is priced at the average cost of gas in inventory.

The amount of gas in storage at the beginning of May 2003 will be slightly greater than the expected storage inventory at the end of March 2005. The value of the net reduction in storage is included in the Cost of Gas Sold to be recovered from customers over the 23 month period.

4.4 Internal SaskEnergy Usage

SaskEnergy uses some gas for the operation of its distribution system. It buys this gas as part of its supply procurement, and recovers the cost of the gas through its Delivery Charges. The cost of Internal Usage gas is deducted from the cost of gas purchases, with the credit calculated at the average cost of gas, including transportation to the TEP interchange point.

For May 2003 through March 2005, SaskEnergy forecasts 683,000 GJ of gas valued at $3,647,000 as Internal Usage. BCUC staff consider that the forecast is reasonable.

4.5 Operating Expenses and Interest

In order to maintain an equitable balance of costs between Utility sales and delivery service for directly purchased gas, SaskEnergy includes costs that are related to gas procurement and management in the Gas Consumption Charge. These costs are forecast as follows:

	2000/2001 Application	2001/2002 Application	2003/2004 Application	May 2003 to March 2005
OM&A and Overhead	$ 1,063,000	$ 1,063,000	$ 1,227,000	$ 2,351,000
Depreciation and Corporate Capital	250,00	250,000	80,000	153,000
Tax	0	(169,000)	84,000	202,000
Net Bad Debt/Late Payment Fees		4,294,000	2,709,000	4,652,000
Interest on Gas in Storage and	(169,000)			
Option Premiums	2,610,000	40,000	32,000	61,000
Other Interest				
	40,000			
	$ 3,794,000	$ 5,478,000	$ 4,132,000	$ 7,419,000

In response to an Information Request from BCUC staff, SaskEnergy described how it reviewed the allocation of Operating, Maintenance and Administrative ("OM&A") expense to the Gas Consumption Charge for the 2003 Business Plan. Each department estimated the time it spent on gas acquisition and commodity sales, including billing. A share of corporate overhead was added on a pro-rate basis. The increase over the previous OM&A allocation was attributed to more complex rate reviews and audits of the GCVA. The methodology of allocating OM&A expenses using time spent on gas commodity matters and other activities appears appropriate. BCUC staff did not review the direct allocation of OM&A expenses in detail, but accept SaskEnergy's explanation for the increase in OM&A.

SaskEnergy assumed Bad Debt would be 0.30 percent of commodity revenue, and Late Payment Revenue would be 0.28 percent of commodity revenue. These rates are in line with the Utility's experience in 2000/01 and 2001/02.

The forecast depreciation expense is lower than in past years, due to extending the life of certain information systems and refining the allocation methodology.

Interest costs for Gas in Storage are calculated using SaskEnergy's short-term borrowing interest rate. This is the only category of Operating Expenses and Interest where the actual costs are recorded in the GCVA. For other expenses, which are generally considered to be within the control of the Utility, the amounts that were applied for in the corresponding rate application and approved are what is recorded in the GCVA. In the Application, SaskEnergy used a short-term interest rate of 3.25 percent for 2003 to reflect interest rate hedges it has in place. The rate increased to the 4.75 to 5.50 percent range as of January 2004 to reflect forecast short-term borrowing costs.

BCUC staff support including these costs in the Gas Consumption Charge for Utility sales customers, to ensure that the Utility competes fairly with other gas marketers. The cost forecast for May 2003 to March 2005 is considered reasonable.

4.6 BCUC Staff Assessment

As discussed in the preceding sections, BCUC staff accept the forecast Cost of Gas Sold of $710.319 million in the Application as reasonable, assuming April 11, 2003 forward gas prices. With minimal hedging in place, actual gas costs may vary significantly from the forecast with changes in market gas prices.

In response to a request from BCUC staff, SaskEnergy updated the forecast in the Application using forward gas prices as of May 12, 2003. Forward gas prices have been quite volatile, and increased slightly from April 11 to May 12, 2003. SaskEnergy also reduced the forecast of short-term interest rates starting January 2004 to the 4.57 to 4.87 percent range. Using the updated information, the Cost of Gas Sold would increase by $12.693 million to $723.012 million. The updated results are shown in Appendix 1. Assuming a zero GCVA balance at the end of March 2005, the resulting Gas Consumption Charge would be $0.2697 per cubic metre or $7.28/GJ. This is $0.03/GJ higher than the rate proposed by SaskEnergy. BCUC staff consider that gas rates generally should reflect the most likely and most current price forecast. However, the difference between the two forecasts would not lead to a material increase in customer rates, and in any case differences between forecast and actual gas costs will be recorded in the GCVA.

5.0 GAS COST VARIANCE ACCOUNT

The actual cost of gas can vary from forecast for a number of reasons. Gas that does not have a fixed price will be bought at actual market prices at the time of purchase. Load variations caused by weather will affect the proportions of purchased and storage gas supply that are sold. In addition, actual gas sales can be higher or lower than forecast, which will affect the gas commodity revenue from sales. Many gas utilities in Canada have a gas commodity cost deferral account in which to record differences between actual and forecast. SaskEnergy's Board of Directors approved the GCVA to be effective November 1, 1999.

SaskEnergy's GCVA records all cost of gas variances between actual gas costs and actual gas commodity sales revenue. That is, the GCVA compensates not only for differences between the actual cost of gas and the forecast cost that is embedded in the rates, but also for differences in the volume of sales. BCUC staff consider that this form of deferral account is justified in order that SaskEnergy fully recovers its prudently incurred actual costs of providing the gas commodity to customers, without a mark-up.

The actual commodity cost of gas recorded in the GCVA includes all cost items in the Commodity Rate Application. Interest expense for gas in storage is recorded in the account. This is consistent with the current Delivery Charges, from which storage gas interest costs were excluded. The Operating, Maintenance and Administration expenses and depreciation and bad debt charges recorded in the GCVA are only those costs and overhead that are directly related to gas supply.

Commodity revenue recorded in the GCVA includes actual commodity revenue from the Gas Consumption Charge, revenue from excess gas sales and late payment charges. The Utility uses its short-term borrowing interest rate to calculate interest charges on the GCVA balance, whether the balance is owing to customers or to SaskEnergy.

A GCVA credit balance (an amount owing to customers) is credited to customers as part of a subsequent rate adjustment. A GCVA debit balance (an amount owing to SaskEnergy) is also normally recovered as part of a subsequent rate adjustment.

5.1 GCVA Balances

The GCVA had a credit balance of $10.9 million at October 31, 2001, and a debit balance of $33.8 million at October 31, 2003. SaskEnergy stated that the Provincial Auditor of Saskatchewan provided an Auditor's Report to the Panel for the GCVA as of these dates. The Application projects that the balance at April 30, 2003 will be a debit owing from customers of $71.1 million, and includes information about the accumulation of the debit balance as follows:

GCVA Balance November 2001 – April 2003, Millions of Dollars

Balance owing to customers at October 31, 2001	$10.9
Refund of the October 31, 2001 balance in customer rates	(10.9)
November 2001 to October 2002 under-recovery	(33.8)
November 2002 to April 2003 under-recovery	(37.3)
Forecast balance owing by customers, April 30, 2003	$(71.1)

Notwithstanding the $33.8 million debit balance at the end of October 2002, SaskEnergy did not propose a rate increase for 2002/03. The rate to customers of $5.44/GJ was somewhat above price forecasts for 2003 at the time, which were in the $4.50 to $5.00/GJ range. Moreover, gas storage inventories were high and a strong North American economic recovery had not materialized. For similar reasons, SaskEnergy did not start to hedge 2002/03 gas purchases until November 2003 when prices began to move upward.

Based on the proposed Gas Consumption Charge and April 11, 2003 forward gas prices, the Application projects a GCVA credit balance of $10.168 million at the end of March 2005. Assuming a zero GCVA balance at the end of the period, without other updates to the forecast, would reduce the Gas Consumption Charge for May 2003 by $0.08/GJ, to $7.17/GJ. This would reduce the residential bill increase from 22 percent to 21 percent.

At the request of BCUC staff, SaskEnergy also calculated the following Gas Consumption Charges that would be required to reduce the GCVA balance to zero over either12 months or 36 months.

Effect of GCVA Recovery Period on Gas Consumption Charge

	Application (23 Months)	12 Month Recovery	36 Month Recovery
GCVA Recovery, $/GJ	0.65	1.24	0.41

Gas Cost, $/GJ	6.60	6.92	6.26
Gas Consumption Charge, $/GJ	7.25	8.16	6.67
Residential Bill Increase	22%	33%	15%

SaskEnergy rejected a one-year GCVA recovery period due to the severity of the rate shock. The Utility believed that a three-year recovery period would be too long. The lower rates under the three year GCVA recovery scenario would cause the GCVA balance to increase over the next 12 months. The forecast GCVA balance at the end of April 2004 would be $87.1 million.

Another approach would be to consider the Gas Consumption Charge that would recover the average cost of gas for the next 12 months, plus one-third of the GCVA balance. The result would be about $7.33/GJ, which is similar to the rate proposed by SaskEnergy.

5.2 BCUC Staff Assessment

The Provincial Auditor has provided Auditor's Reports for the GCVA to October 31, 2002. Consequently, BCUC staff have limited review of the GCVA balance to the information that was in the Application.

BCUC staff agree that recovery of the GCVA balance over the 23 month period is reasonable in the present circumstances.

The previous BCUC staff report recommended several changes to GCVA reporting that were intended to help the Panel monitor the GCVA and the appropriateness of the current Gas Consumption Charge (See Section 5.2 of the BCUC Staff Report dated December 10, 2001). The Background section of Manitoba Public Utilities Board Order No. 73/03 describes a more structured quarterly commodity rate review process.

Gas prices continue to be very volatile, and BCUC staff are still of the view that quarterly reporting of GCVA balances and reviews of gas commodity charges are needed. BCUC staff recommend the development of guidelines for such reporting and reviews that would permit SaskEnergy and the Panel to quickly implement a change to the Gas Consumption Charge in response to changing circumstances, with the rate change to be reviewed subsequently if necessary.

6.0 GAS CONSUMPTION CHARGE

SaskEnergy recommends a 33 percent increase in the Gas Consumption Charge for May 2003, which would increase customer bills by approximately 22 percent. Based on the gas cost forecast in the Application, the recommended Gas Consumption charge of $0.2685 per cubic metre ($7.25/GJ) would result in a GCVA credit balance at March 2005 of $10.2 million. Alternatively, a Gas Consumption Charge of $$0.2654 per cubic metre ($7.17/GJ) would result in a zero GCVA balance at the end of the period. The corresponding increase in the annual bill of a typical residential customer would be 21 percent.

Using May 12, 2003 forward gas prices and other updated information, the recommended Gas Consumption Charge would result in a very small forecast debit balance at March 2005. The GCVA debit balance would be approximately $65 million at the end of December 2003.

The recommended Gas Consumption Charge is a substantial increase for consumers, and the secondary impact of GST and municipal payments where applicable will add to the bill increase. However, with the large GCVA debit balance and current forward gas prices, there appears to be little alternative. Moreover, SaskEnergy's information indicates that the proposed residential Gas Consumption Charge will be among the lowest across Canada.

The gas cost forecast in the Application and a zero GCVA balance at the end of the review period would permit a small reduction to the proposed rate increase. However, making a larger reduction to the rate increase such as by extending the GCVA recovery period would eliminate any repayment of the debit balance over the remainder of 2003. Since gas prices are very volatile and price movements are unpredictable, it would be imprudent to recommend such a course of action considering that SaskEnergy is almost completely exposed to changes in market prices. This exposure to volatile market prices emphasizes the need for SaskEnergy to implement a price risk management program for the period under consideration.

The magnitude of the rate increase may cause further erosion in use per customer, and the $0.65/GJ GCVA recovery charge may cause Utility sales customers to migrate to other commodity suppliers. To avoid problems from such customer migration, SaskEnergy should implement steps to recover a share of the GCVA debit balance from customers who migrate.

The Panel is required to consider the interests of the customer, the Crown Corporation and the public. A Gas Consumption Charge similar to the rate proposed by SaskEnergy would be consistent with the present GCVA debit balance and current forward gas prices. If gas prices change from the forecast in a material way and circumstances warrant, SaskEnergy can apply for a rate change. In any case, the GCVA will record any differences between actual gas costs and the revenue that is generated by approved rates. With the GCVA, customers will pay the actual cost of buying gas for them, and SaskEnergy will be allowed to achieve the performance inherent in the parameters that are stated as given in the Minister's Order.

6.1 BCUC Staff Recommendations on Gas Consumption Charge

BCUC staff generally accept the forecasts of sales load and Cost of Gas Sold in the Application. Possible adjustments to SaskEnergy's Cost of Gas Sold forecast such as for short-term interest rates would be small, and variances between forecast and actual will be recorded in the GCVA.

BCUC staff believe that SaskEnergy generally should target a zero GCVA balance at the end of the period used to calculate rates. However, the March 2005 credit balance shown in the Application is more than offset by the effect of the subsequent increase in forward gas prices. BCUC staff recommend that the GCVA debit balance be recovered from customers over the May 2003 through March 2005 period as proposed by SaskEnergy.

If the Panel wishes to use the April 11, 2003 gas price forecast that SaskEnergy used in the Application, BCUC staff would recommend a Gas Consumption Charge of $0.2654 per cubic metre ($7.17/GJ). If the Panel prefers the more current May 11, 2003 forecast, BCUC staff would recommend a Gas Consumption Charge of $0.2685 per cubic metre ($7.25/GJ), as proposed in the Application. The difference between the two rates is small, and BCUC staff are of the opinion that either would be a fair and reasonable Gas Consumption Charge. The new rate should be approved effective May 1, 2003.

This Report is submitted as of June , 2003.

Original signed by:
J.B. Williston, Manager
Engineering and Commodity Markets

Original signed by
W.J. Grant, Executive Director

SaskEnergy Incorporated

Cost of Gas Sold
(in $ 000's)

	2000/01 Approved	2001/02 Actual	2003/04 Application	Application[1] May03/Mar05	Updated[2] Forecast
Cost of Purchase Gas	303,915	405,731	354,737	691,231	700,012
Transportation Costs	13,480	6,497	4,848	8,558	8,557
Net Change in Storage Inventory	(26,939)	6,466	24,123	6,757	11,790
Subtotal	290,456	418,694	383,708	706,546	720,359
Cost of Other Gas Sales	0	0	0	0	0
Deduct Cost of SaskEnergy Internal Use	(2,116)	(2,692)	(1,849)	(3,647)	(4,502)
Cost of Gas	288,340	416,002	381,859	702,899	715,856
Operating Expenses and Interest	3,735	5,478	4,131	7,419	7,155
Cost of Gas Sold	292,075	421,480	385,940	710,319	723,012
GCVA Balance Recovery	(156)	0	0	71,066	71,066
Adjusted Cost of Gas Sold	291,920	421,480	385,990	781,385	794,078
Quantity Sold, PJ	64.6	73.4	57.4	109.04	109.04
Cost of Gas Sales, $/GJ	4.52	5.74	6.72	7.17	7.28
Volume Available for Recovery, $10^6 m^3$	1748.9			2,943.8	2,943.8
Gas Consumption Charge (Full GCVA Recovery[3]) $/m^3$	$0.1669			$0.2654	$0.2697
Gas Consumption Charge (Recommended[4]) $/m^3$	$0.1669			$0.2685	$0.2685

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1 Application forecasts May 2003 through March 2005 using April 11, 2003 forward gas prices.

2 Updated Forecast of Cost of Gas Sold uses May 12, 2003 forward gas prices, and updated short-term interest rates.

3 Gas Consumption Charge to give zero GCVA balance at the end of March 2005.

4 Gas Consumption Charge recommended by SaskEnergy in the Application and April 11 forward gas prices result in a $10.2 million GCVA credit balance at March 2005.

MINISTER'S ORDER

Saskatchewan Rate Review Panel
SaskEnergy Natural Gas Commodity Rate Change

WHEREAS by an Order dated July 24, 2002, issued pursuant to Section 16 of *The Government Organization Act*, the Minister of Crown Investments Corporation appointed a Ministerial Advisory Committee known as the Saskatchewan Rate Review Panel;

AND WHEREAS that Order provides for specific terms of reference for particular Crown Corporation rate change reviews to be attached by further minister's order;

AND WHEREAS it is desirable to establish terms of reference for a SaskEnergy rate change review and to attach the Terms of Reference to the previously mentioned Minster's Order;

NOW THEREFORE, I hereby amend the said Order by attaching Appendix A affixed hereto as "Schedule "A": SaskEnergy Natural Gas Commodity Rate Adjustment Terms of Reference" to the said Minister's Order.

Dated at Regina, Saskatchewan this 16th day of April, 2003.

"Maynard Sonntag"

Minister of Crown Investments Corporation

Appendix A

Schedule A:
SaskEnergy Natural Gas Commodity Rate Adjustment Terms of Reference

Terms of Reference

The Saskatchewan Rate Review Panel is requested to conduct a review of SaskEnergy's interim rate increase in its natural gas commodity rates, with an effective date approved by Cabinet. The Panel is requested to approve or provide recommendations for changing the rate by June 27, 2003. SaskEnergy has been directed by Cabinet to file their application immediately.

The Panel shall provide an opinion of the fairness and reasonableness of SaskEnergy's proposed rate changes, considering the interests of the customer, the Crown Corporation and the public.

In conducting its review, the Panel will consider the following factors:

(A) The reasonableness of the proposed changes to the gas consumption rates in the context of:

1. SaskEnergy's anticipated cost of gas for the effective term;
2. the Gas Purchase Contracts entered into by SaskEnergy for the supply of gas;
3. the natural gas commodity market conditions at the time of SaskEnergy's contractual commitments; and
4. the disposition of the balance of the Gas Cost Variance Account.

(B) In conducting its review, the Panel shall consider the following as given:

1. the current operating rate structure;
2. the approved capital allocation, annual rate of return target, rate base, and corporate policies;
3. the existing service level; and
4. the cost of service methodology and resulting study, which allocates SaskEnergy costs between the various rate classes.

The Panel will not publicly release or require SaskEnergy to publicly release commercially sensitive material including, but not limited to, its gas price hedging strategy and any details of its hedging or the gas purchase contracts.

However, the Panel may release the net effect of SaskEnergy's gas price hedging and gas purchase contracts.

The Panel must include in its report an explanation of how, in its opinion, implementation of the Panel's rate recommendations will allow SaskEnergy to achieve the performance inherent in the parameters outlined in (B), where the Panel's recommendations are different from SaskEnergy's proposed rate changes.

The Panel will release, as part of its final report, the results of the review of SaskEnergy's rate request as conducted by an independent third party.

Conduct of the Review

The Panel will present its report to the Minister for Crown Investments Corporation no later than June 27, 2003. SaskEnergy has been directed by Cabinet to file their application with the Panel immediately.

SCHEDULE "A"

Services Provided by BCUC

1. Provide professional and technical expertise, advice and services to the Panel pertaining to a review of SaskEnergy's request for an increase in its natural gas commodity rates.

2. Prepare and deliver to the Chair of the Panel a report on SaskEnergy's rate changes. The report should:

   - review whether SaskEnergy's proposed commodity rate increase is fair and reasonable;
   - provide a recommendation to the Panel regarding SaskEnergy's rate proposal; and
   - provide a recommendation to the Panel regarding the disposition of the Gas Cost Variance Account.

3. Attend meetings as required by the Chair of the Panel.

THE BRITISH COLUMBIA UTILITIES COMMISSION STAFF

General

The British Columbia Utilities Commission is an independent regulatory agency of the Provincial Government operating under and administering the Utilities Commission Act. The Commission's primary responsibility is the regulation of the 20 energy utilities and pipelines under its jurisdiction to ensure that the rates charged for energy are fair, just and reasonable, and that utility operations provide safe, adequate and secure service to their customers. The Commission approves the construction of new facilities planned by utilities and their issuance of securities. The Commission's function is quasi-judicial and its decisions and orders may only be appealed to the Court of Appeal on questions of law or jurisdiction. The Commission members are appointed for specific terms by the Cabinet, through the Lieutenant Governor-in-Council.

The Commission's professional staff are hired independently by the Commission under the powers of the Utilities Commission Act and are separate from the Public Service Act. Commission staff provide technical advice and administration support to the Commission in all areas including engineering, finance and accounting, economics and rate design, and review of commodity contracts. Bill Grant is the Executive Director of the Commission and the most senior staff position, reporting directly to the Chairperson. Brian Williston is the Manager, Engineering and Commodity Markets and is responsible for the review of natural gas and electricity supply contracting practices and of applications for major facility additions. Biographies are attached.

Revenue Requirements Application Review

In British Columbia, the Utilities Commission Act provides that the only rates a public utility can lawfully charge and the only terms and conditions of service that it can apply, are those which have been filed with and accepted by the Commission. Rates must strike a balance between being a fair charge for the service provided to the customer, while permitting the utility to earn a reasonable return on its investments required to provide these services.

A revenue requirements application generally compares, for a future test period such as the next year, a forecast of the revenue generated using current rates to a forecast of the utility's cost of providing service. The utility usually requests adjustments to customer rates to eliminate any forecast revenue deficiency or surplus. Utility costs such as operating, maintenance and administration expenses, depreciation charges, interest charges, income and other taxes, and a fair return on its equity investment, are typically recovered in fixed Monthly Charges and variable Delivery Charges. Costs related to the gas commodity are flowed-through to customers without any mark-up by the utility, and are recovered in variable Gas Consumption Charges.

Rate design is the allocation of the utility's revenue requirement to individual rate classes of customers, and the structuring of the components of rates for each class. Rate design is generally reviewed less frequently than revenue requirements. Between rate design reviews, the Commission makes revenue requirement adjustments to rates in a manner that is consistent with the rate structure and specific directions that were approved in the last rate design proceeding.

A revenue requirement application for changes to delivery rates generally requires a public hearing. Because of the adversarial nature of the traditional public hearing process, hearings can become long and costly. The Commission has introduced the following approaches in an effort to reduce costs and save time:

Negotiated Settlement Process ("NSP")

NSP has been very successful by eliminating the need for a hearing on many applications and reducing the scope of matters that need to be reviewed in other cases. In the negotiation process, individuals representing various interests openly explore issues set out in the utility's application, with the purpose of reaching a common understanding of the underlying interests. Recommended solutions and agreements are arrived at through collaboration and consensus. Trade-offs between competing objectives are encouraged so that the final settlement maximizes the overall needs of the participants. Commission staff are active participants to ensure that all ratepayers are represented. Settlements are subject to Commission approval.

Performance Based Regulation ("PBR")

PBR mechanisms are used to streamline rate setting, and to implement incentives to utilities to trim costs while maintaining high quality service. A PBR mechanism typically sets a baseline revenue requirement by expense category that can be modified for inflation, productivity and other factors in the future. Both customers and shareholders are rewarded for management measures that result in costs below the baseline. Costs like taxes, that are beyond the control of the utility, are recovered at cost. Service quality measures ensure that the utility does not pursue costs savings at the expense of system reliability, safety and customer satisfaction. PBR arrangements typically run for several years, with annual meetings to review progress and performance.

Other Processes

The Commission frequently uses workshops, pre-hearing conferences and town hall meetings as part of the hearing process. Workshops are educational sessions prior to a hearing, so that all parties have a similar level of understanding. Pre-hearing conferences optimize the hearing schedule, and attempt to identify non-contentious issues that may be removed from the scope of the hearing. Town hall meetings are less formal hearing sessions that are held at times, and in locations, which are more convenient for members of the public likely to be affected by the application.

Rather than an oral public hearing, the Commission sometimes uses a written hearing where the subject is technical and of limited interest to the public, or an Inquiry by a single Commissioner where the issue is fairly well defined and localized.

Generic Hearings

Where issues are common to several utilities, the Commission reviews the matter in a single generic hearing. This approach has been used to determine the appropriate rate of return on equity for the major utilities it regulates, and to develop a mechanism for calculating the return for future years.

Energy Supply Contract Review

In British Columbia, Section 71 of the Utilities Commission Act provides that the Commission must review and accept the commodity supply contracts entered into by each utility. The Commission must determine that the quantity of natural gas contracted for, and its availability, are sufficient for the needs

of the core customers of the utility. The Commission must also determine that the prices in those contracts are competitive. In practice, Commission staff have an ongoing dialogue with the natural gas supply departments of the affected utilities to agree on a contracting plan early in each year and the Commission then accepts individual contracts that are consistent with the contracting plan. The utilities enter into a portfolio of natural gas contracts, including baseload contracts, peaking contracts, seasonal contracts, and underground storage contracts. Terasen Gas Inc. ("Terasen Gas") also stores gas in its liquified natural gas facility. The various contracts will include both variable priced and fixed priced contracts, and utilities have price risk management programs to reduce rate variability and attempt to obtain the lowest overall price for the customers.

British Columbia is not blessed with underground storage nearby the primary load centre in the Lower Mainland. This circumstance, coupled with the poor load factor of the residential and commercial customers which make up the bulk of the utility core sales, results in contracting plans which are more diverse than may be necessary for a utility with local storage options.

In British Columbia each gas utility is permitted to flow-through its actual prudently-incurred cost of gas purchases to customers. Each utility has a gas cost variance account to record the difference between the actual cost of gas purchases and the revenues recovered through the gas commodity component of rates. Positive or negative balances in the account are passed through to customers in future rates. In specific instances, the Commission has approved phased-in commodity cost increases to avoid rate shock to customers. While this process has had the advantage of smoothing the rate increases to customers, it has been criticized as blunting the market signals to customers.

In response to the increase in gas prices in 2000, the Commission reviewed Terasen Gas practices related to the setting of gas commodity rates and management of gas cost variance account balances. Commission Letter No. L-5-01, dated February 5, 2001, established "Guidelines for Setting Gas Recovery Rates and Managing the Gas Cost Reconciliation Account Balance". Terasen Gas files quarterly reports on gas costs and gas commodity revenue, and is expected to apply for a rate change if forecast costs and revenues for the following 12 months differ by more than 5 percent. The Commission did not change the three year amortization of the Terasen Gas gas cost reconciliation account balance at the end of 2000, but found that future amounts accumulated in the account should be amortized over 12 months in normal circumstances. The Commission has subsequently directed the other gas utilities in

British Columbia to file quarterly reports on gas costs and revenue, and gas cost variance account balances.

WILLIAM JOHN GRANT, B.SC. (Eng.), MBA, CFA

Bill has been employed by the British Columbia Utilities Commission and its predecessor, the British Columbia Energy Commission, for more than 20 years. For the past 14 years he has been the Executive Director of the Commission. Prior to Commission employment he worked for Transport Canada and the Institute of Guided Ground Transport.

Bill has initiated or been involved in the development of many energy regulatory reforms including the following:

- Natural gas commodity competition and unbundling of utility tariffs. British Columbia was the first province to allow industrial customers to purchase gas directly from producers or marketers. The process of unbundling utility costs lead the Commission to initiate a bypass methodology which has been adopted by many jurisdictions;

- An automatic return on equity adjustment mechanism was first implemented in Canada by the Commission;

- The Commission has been using and refining its multi-year, performance-based rate making process over the past seven years;

- The Commission has selectively used alternative dispute resolution techniques for more than ten years. Most utility rate and rate design applications are settled rather than going to public hearing; and

- The Commission first implemented wholesale electricity competition in 1996 and the first retail access application was approved in 1999.

Bill completed a Masters of Business Administration degree immediately following his undergraduate Bachelor of Science degree. He has been a Professional Engineer in Ontario and British Columbia and he returned to academic study to obtain a Chartered Financial Analyst designation from the University of Virginia. Bill enjoys skiing and mountain biking. He does not enjoy revenue requirements hearings.

JOHN BRIAN WILLISTON, P.Eng.

CAREER EXPERIENCE

British Columbia Utilities Commission

1997-03 Manager, Engineering and Commodity Markets
- Manage the engineering and energy commodity markets staff which support the regulation of natural gas and electrical utilities in British Columbia.

1992-97 Senior Petroleum Engineer
- Provided engineering support for the financial regulation of gas utilities and oil pipelines, with responsibility for energy supply contracts and market-based gas sales activities.

Williston Energy Management

1992 Principal
- Analyzed gas supplies available in British Columbia, and developed alternatives for connection of new supply areas to markets.

Canwest Gas Supply Inc.

1990-91 Vice President Operations and Transportation
- Responsible for ordering gas purchases and transporting gas marketed by the significant gas aggregator in British Columbia, including negotiating transportation contracts for deliveries throughout western North America.

British Columbia Petroleum Corporation

1989-90 Vice President Gas Supply
- Responsible for purchasing and transporting natural gas and marketing sulphur and liquid byproducts, including negotiation of new supply and service contracts.

1975-88 Chief Engineer, Senior Engineer
- Managed the engineering group, with responsibility for testing and forecasting of gas deliverability and production; economic evaluations and negotiations for new supply areas; and administration of gas purchase contracts. Earlier, evaluated feasibility of a grassroots oil refinery and petrochemical facility, and was Metric Coordinator for company.

Gulf Oil Canada Ltd.

1969-75 Process Engineer, Planning Analyst

- Provided technical support for oil refinery operations, designed and brought into service new and expanded facilitates. Optimized crude runs and operations to meet product demands.

EDUCATION, PROFESSIONAL ASSOCIATIONS

- B.Sc. in Chemical Engineering, University of New Brunswick, 1969
- Registered Professional Engineer in British Columbia
- Member of Society of Petroleum Engineers